

# Arabica Coffee Spot Contract Specifications

## 1. Underlying commodity

Unroasted arabica coffee beans produced in Brazil, type six or better, hard cup or better, free from any rio or rioy flavor, packed in new jute bags, maximum one single hole, to be protected from foreign odors, moisture and other adulterations, and which have not been salvaged from fire. The coffee must be graded by the BM&F, according to its rules and regulations and to Federal Decree 27173, of September 14, 1949, stored in Exchange-licensed warehouses and formed in lots, which will compose one contract.

## 2. Price quotation

Brazilian Reais per 60 net kilograms (one bag) of coffee.

## 3. Minimum daily price fluctuation

R\$0.01 per 60 net kilograms.

## 4. Contract size

100 bags, weighing 60 net kilograms each.

## 5. Physical delivery and cash settlement

Cash settlement: For the buyer, on the business day following the trading day; for the seller, on the third business day following the trading day.

Physical delivery: The seller tenders the necessary documents up to 4:00 pm of the trading day; on the third business day following the trading day, coffee will be transferred to the buyer.

## 6. Cash settlement of day trading (item 10) and daily settlement of accounts (item 11)

The business day following the trading day.

## 7. Delivery point

The City of Sao Paulo, State of Sao Paulo.

## 8. Storage locations

Licensed warehouses.

## 9. Grading certificate and arbitration

Grading will be requested by the customer (seller) through a licensed warehouse by means of the form adopted by the Exchange. The form must discriminate the number of lots and respective bags.

The BM&F will file each grading request and render this service by chronological order of reception. The grading certificate will be issued in five business days after receiving the samples, provided they are delivered up to five business days prior to the trading day.

One of the samples of each lot, which must be sealed, will be delivered to the customer (buyer) for quality testing and the others will remain with the BM&F for possible arbitration. The number of samples will be determined by the Exchange

## 10. Day trading

Long and short positions are allowed for daily closeouts, provided they are executed during the same trading session for the same customer (or local trader) by the same commodities brokerage house and cleared by the same clearing member. Gains and losses from such transactions will be cash settled on the following business day.

## 11. Daily settlement of accounts

The invoice value will be the coffee settlement price, defined as the price of the last trade executed on the floor or arbitrated by the BM&F, in accordance with its rules and regulations. Differences between the last price and the price traded during a trading session will be adjusted daily and cash settled on the business day following the trading day.

## 12. Settlement conditions

### • Delivery procedures

On a physical delivery, the seller must tender the following documents up to 4:00 pm of the trading day :

- the grading certificates issued by the BM&F;
- a packing list of each lot issued by the depository warehouse;
- a declaration, issued by the depository warehouse, containing:
  - 1) coffee ownership;
  - 2) inexistence of debts whatsoever, including tax and endorsement debts, surety, etc.;
  - 3) new and perfectly conserved bags;
  - 4) payment of storage and usual insurance expenses ;
- a provisional delivery order to the BM&F issued by the depository warehouse.

If the seller does not tender these documents within the stipulated time, he or she will be subject to a fine for default, to be established by the Exchange, in accordance with the provisions of its Operating Rules and Bylaws.

At the end of each session, buyers and sellers—customers of the same commodities brokerage house if possible—will be assigned. If a counterparty is not available at the same commodities brokerage house, a random assignment will be made to counterparties of other commodities brokerage houses.

The buyer, through his or her commodities brokerage house, must prepare and send an invoice to the BM&F up to 12:00 noon of the business day following the trading day.

Both the buyer and the seller can appoint others who must deliver the coffee or to whom the coffee must be delivered. In any case, the replacing customer must fulfill all the terms of this contract, which will remain under the original customer's responsibility up to the cash settlement.

• **Deliverable grades and standards**

- The type must be six or better (inferior grades will not be acceptable for delivery);
- coffee affected by rain, moisture and mud, or tasting strangely will not be acceptable;
- maximum 8% wormy or bored beans;
- lots can be delivered with screen 15 or larger. The pouring out of screen 15 is limited to 30% and the pouring out of screen 13 is limited to 10%. Lots containing flat berries can be composed of maximum 10% pea berries and lots containing pea berries can be composed of maximum 10% flat berries;
- screens are not considered for lots composed of pea berries;
- to form a lot, the coffee must be evenly colored green or greenish, which is the color of the current or former crop. Light-colored or spotted coffee will not be acceptable for delivery;
- an even variation in color will be permitted, given the time lag between the grading certificate issuance date and the delivery date;
- lots damaged from poor storage conditions cannot be delivered;
- a maximum of 100 60-net kilogram bags, plus or minus 1%, can be delivered per contract, stored in only one warehouse.

A lot or part of it cannot be transferred from one warehouse to another. Otherwise, the grading certificate will be cancelled.

When necessary, the BM&F will examine the bags and the coffee that compose the lots stored in licensed warehouses. If the lots are out of specification, they will have their grading certificates cancelled. A small hole, made by a thin pick, is admitted in each bag to withdraw the coffee samples, for grading, arbitration and/or verification of lot conformity purposes.

The seller must send the samples to BM&F, as well as request grading and/or arbitration, through his or her warehouse.

Partial or total repacking will be allowed if there are holes in the bags causing the coffee of a lot already graded to pour out. In such a case, the BM&F and the seller must be informed by the warehouse, which must repack the coffee in up to ten days. Repacking will be under the seller's responsibility. If the BM&F is not informed by the depository warehouse or the seller of the pouring out of coffee, the lot will be disqualified.

• **Physical delivery settlement value**

It will be calculated by the settlement price per bag of the trading day times the number of bags. Discounts for time lags as of the grading certificate issuance date and for freight costs, if any, will be deducted. Finally, the value thus obtained is divided by 60.50 kilograms times the gross weight of the lots delivered.

The settlement value can also be calculated according to the following formula:

$$VL = \frac{C \times (1 - D1 / 100) - D2}{60,50} \times P$$

VL = the cash settlement value per contract;

C = the settlement price;

D1 = the discount for time lags as of the grading certificate issuance date;

D2 = the discount for freight costs;

P = the gross weight of the lots delivered per contract.

The weight, plus or minus 1%, will be verified by the warehouse where the coffee is stored. The buyer can request the coffee to be weighed at the moment of taking delivery. If the resulting weight is different from that verified by the warehouse, the invoice value will be properly adjusted. Weighing expenses are on the buyer.

The value added tax (ICMS), if due, will be added to the invoice value, by observing current legislation.

The agricultural and farming fund tax (INSS, ex-FUNRURAL) due on the transactions where the seller is a farmer is included in the invoice value, therefore composing the basic price of the commodity. In such a case, the BM&F will deduct from the price due to the seller or replacing customer, on the settlement date, the amount equivalent to that tax, which must be paid by the buyer.

If social interaction program taxes (PIS and COFINS) are due, they will be paid by the seller, pursuant to the provisions of current legislation, thus composing the basic price of the underlying commodity.

Discounts for time lags as of the grading certificate issuance date will be of 1% every 30 days. The first discount will fall upon the 91st day of the grading certificate issuance date.

Freight cost discounts will be periodically published by the BM&F.

- **Cash settlement**

Cash settlement will be made by the buyer on the business day following the trading day.

The buyer will receive the cash settlement value, including weight, freight and time lag discounts, up to the third business day following the trading day, provided his or her documents have been approved by the Exchange. If the Exchange does not approve his or her documents on that day, he or she will be considered at default. The money paid by the buyer will be invested by the BM&F, up to its liberation to the seller. The income thus obtained will be transferred to the buyer.

Payment will be made without a premium when type is above six.

- **Arbitration**

All lots received must be previously arbitrated. The buyer may examine their conformity to storage conditions. If he or she does not agree with such conditions, he or she may ask the Exchange to verify them up to 9:00 am of the second business day following the trading day. If arbitration proves the nonconformity alleged by the buyer, the seller will be obliged to replace the lot(s) within two business days. In this case, the Exchange will retain payment and will only transfer it to the commodities brokerage house, and from the commodities brokerage house to the seller, after the coffee is finally accepted by the buyer.

When the buyer asks the BM&F to verify a lot's accuracy, he or she will pay the corresponding expenses, which refer to an Exchange representative trip and lodgings plus 1% of the value of a lot verified, calculated on the spot price traded on the floor, plus 0.5% for the verification of a second lot plus 0.3% for the verification of any of the subsequent lots. These costs will be charged to the party at fault.

If the buyer and the seller agree upon a discount for differentials, such an agreement must be registered with the BM&F for settlement purposes.

### **13. Trading costs**

- **Basic commission rate**

Regular trading: 0.50%; day trading: 0.10%.

The basic commission rate is applied to the trading value and is subject to a minimum value established by the Exchange.

- **Exchange fee**

6.32% of the basic commission rate.

- **Grading and arbitration fee**

As established by the BM&F. This fee must be paid when grading and arbitration are requested.

Trading costs are due on the business day following the trading day.

Common members will pay 75%, at most, of the basic commission rate and 75% of the Exchange fee.

### **14. BM&F guarantee system**

The features of BM&F's financial safeguards and guarantee system are detailed in Circular Letter 040/98-SG, of March 31, 1998, which publishes contractual provisions that are an integral part of these specifications.

### **15. Further regulations**

This contract is subject to the legislation in force and to BM&F rules, regulations and procedures defined in its Bylaws, Operating Rules and Circular Letters, as well as to the rules set forth by the Central Bank of Brazil.